



STATE OF WASHINGTON

OFFICE OF THE FORECAST COUNCIL

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February 11, 2003

**TO:** Senator Dino Rossi  
Representative Jack Cairnes  
Representative Jeff Gombosky  
Marty Brown, OFM, Director  
Will Rice, DOR, Acting Director

**FROM:** Chang Mook Sohn, Executive Director  
Office of the Forecast Council

**SUBJECT:** FEBRUARY 10, 2003 REVENUE COLLECTION REPORT

General Fund-State receipts were \$4.6 million above the estimate in the January 11-February 10, 2003 collection period. Much stronger than expected real estate excise tax payments more than accounted for this month's positive variance. Property tax and estate tax receipts were also higher than expected for the month. These payments were partially offset by a large decline (\$12.2 million) in the "other" category. Most of this decline was due to an adjustment correcting a posting error, which over-stated "other" revenue last month. Revenue Act (sales, use, business and occupation and public utility tax) receipts were virtually right on the estimate for the month. GFS collections are now \$37.4 million above the forecast for the three months since the November forecast. Cumulatively, much stronger than expected real estate excise tax payments account for \$23.0 million of the total variance. Revenue Act receipts are cumulatively \$9.7 million higher than expected.

While collections have been higher than expected, the positive variance both for the month and cumulatively is largely due to unusually large audit payments rather than to an improving economy. Collections this month included \$12.9 million from two large audit payments. In the three months since the November forecast, there have been four unusually large audit payments, which have totaled \$28.8 million. Excluding these payments, Revenue Act receipts would have been \$12.9 million less than expected for the month and \$19.1 million less than expected for the three months since the November forecast. Total GFS collections would have been \$4.3 million more than expected this period and only \$8.6 million more than expected in the three months since the November forecast excluding these audits payments and the local sales tax posting adjustment. Neither the U.S. economy nor the Washington economy has shown much overall improvement in the fourth quarter. Nationally, the unemployment rate did unexpectedly fall from 6.0 percent in December to 5.7 percent in January and payroll employment increase by 143,000 jobs. However, much of the January increase is thought to be related to seasonally adjustment issues. Manufacturing jobs in January fell another 16,000 and consumer confidence remains weak. While real GDP grew in the fourth quarter of 2002, the rate of increase sharply decelerated from 4.0 percent in the third quarter to only 0.7 percent in the last quarter of 2002. Consumption spending also decelerated from

4.2 percent in the third quarter to only 1.0 percent in the fourth. At the state level, employment in manufacturing, construction and retail trade all fell between October and December and Washington's unemployment rate increased to 6.8 percent in December, the highest level since September. Neither the economy nor revenue growth will likely improve until the economy starts adding more jobs and geo-political risks are reduced.

Revenue act receipts in the January 11- February 10, 2002 collection period were only 0.1 percent above last year's very weak level, adjusting for special factors (primarily large audit payments). Collections this period primarily reflect December 2002 business activity of monthly taxpayers, October through December activity of quarterly filers, and calendar year 2002 business of annual taxpayers. The weakness this month follows last month's 3.4 percent (revised) decline and October's 4.1 percent increase. For the entire fourth quarter, Revenue Act receipts (adjusted) were just 0.3 percent above the year-ago level, much weaker than the 2.4 percent increase in the third quarter. The deceleration of revenue growth the last three months is particularly disappointing due to the weakness of the economy a year ago.

Preliminary data on taxes paid during the January 11- February 10 collection period showed weakness pretty much across the board. The retailing sector reported a small positive (1.3 percent) increase in tax payments, despite a 5.2 percent decline reported by motor vehicle dealers. The best performing sectors within retail trade were electronics and appliance stores and building materials/garden equipment retailers, both with high single digit increases. Taxes paid by non-retailers were 1.3 percent less than a year-ago overall. The manufacturing sector reported the largest decline, 14.4 percent. While the construction, utilities and many major service sectors also reported declines, the wholesaling, finance and insurance sectors reported modest increases in tax payments.

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$4.7 million above the forecast in January. Much stronger than expected real estate excise tax payments and higher than expected estate and property tax payments more than offset a large shortfall in the "other" category. This shortfall was due to an adjustment correcting a posting error last month. For the three months since the November forecast, Non Revenue Act sources are \$27.8 million higher than expected. Most of this (\$23.0) was due to a very strong real estate market. Real estate excise tax payments in January (reflecting closings in December) were an amazing 45.3 percent above the year-ago level statewide. This follows increases of 31.6 percent in November and 29.0 percent in October. For the quarter, taxable real estate excise activity was up 35.5 percent from a year-ago. Although the year-ago level was somewhat depressed in the aftermath of the September 11<sup>th</sup> tragedy, real estate excise activity the fourth quarter of 2002 in both nominal and real terms was the best ever.

Department of Licensing General Fund collections were \$52,000 less than anticipated. Cumulatively, Department of Licensing General Fund receipts are \$82,000 below the forecast.

The attached Table 1 provides a comparison of collections with the November forecast for the January 11 - February 10, 2003 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**February 10, 2003 Collections Compared to the November 2002 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
<b>January 11 - February 10, 2003</b>				
Department of Revenue-Total	\$960,028	\$964,675	\$4,647	0.5%
Revenue Act** (1)	885,217	885,191	(26)	-0.0%
Non-Revenue Act(2)	74,811	79,484	4,673	6.2%
Liquor Sales/Liter	10,837	10,763	(74)	-0.7%
Cigarette	4,247	4,811	563	13.3%
Property (State School Levy)	9,292	11,893	2,601	28.0%
Estate	7,163	9,744	2,580	36.0%
Real Estate Excise	34,061	45,310	11,248	33.0%
Timber (state share)	0	0	0	NA
Other	9,210	(3,036)	(12,245)	-133.0%
Department of Licensing (2)	641	589	(52)	-8.1%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$960,669</b>	<b>\$965,264</b>	<b>\$4,595</b>	<b>0.5%</b>
<b>Cumulative Variance Since the November Forecast (November 11, 2002 - February 10, 2003)</b>				
Department of Revenue-Total	\$2,992,776	3,030,243	37,467	1.3%
Revenue Act** (3)	2,163,747	2,173,450	9,703	0.4%
Non-Revenue Act(4)	829,029	856,793	27,764	3.3%
Liquor Sales/Liter	25,969	26,671	703	2.7%
Cigarette	12,309	12,694	385	3.1%
Property (State School Levy)	626,479	624,524	(1,955)	-0.3%
Estate	21,934	22,790	856	3.9%
Real Estate Excise	98,802	121,795	22,993	23.3%
Timber (state share)	2,053	2,233	180	8.8%
Other	41,482	46,085	4,603	11.1%
Department of Licensing (4)	1,879	1,797	(82)	-4.4%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,994,655</b>	<b>\$3,032,040</b>	<b>\$37,385</b>	<b>1.2%</b>

1 Collections January 11 - February 10, 2003. Collections primarily reflect December 2002 activity of monthly taxpayers, q4, 2002 activity of quarterly filers and 2002 activity of annual filers.

2 January 1-31, 2003 collections.

3 Cumulative collections, estimates and variance since the November 2002 forecast; (Nov. 11 - February 10, 2003) and revisions to history.

4 Cumulative collections, estimates and variance since the November 2002 forecast; (November 2002 - January 2003) and revisions to history.

\* Based on the November 2002 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**January 10, 2003 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections Preliminary</u>	<u>Revised</u>	<u>Difference Amount</u>	<u>Percent</u>
<b>December 11 - January 10, 2003</b>				
Department of Revenue-Total	\$962,591	\$962,591	(\$0)	-0.0%
Revenue Act (1)	631,093	631,093	0	0.0%
Non-Revenue Act(2)	331,498	331,498	(0)	-0.0%
Liquor Sales/Liter	8,250	8,250	0	0.0%
Cigarette	3,973	3,973	0	0.0%
Property (State School Levy)-net	256,156	256,156	(0)	-0.0%
Property tax collections	256,156	256,156	(0)	-0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	8,706	8,706	0	0.0%
Real Estate Excise	36,598	36,598	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	17,814	17,814	0	0.0%
Department of Licensing (2)	759	730	(29)	-3.8%
Lottery (2)	0	0	0	NA
Total General Fund-State***	\$963,349	\$963,321	(\$28)	-0.0%
<b>Cumulative Receipts: November 11 - January 10, 2003 &amp; Revisions to History</b>				
Department of Revenue-Total	2,065,568	\$2,065,568	\$0	0.0%
Revenue Act (3)	1,288,259	1,288,259	0	0.0%
Non-Revenue Act(4)	777,309	777,309	(0)	-0.0%
Liquor Sales/Liter	15,909	15,909	(0)	-0.0%
Cigarette	7,884	7,884	(0)	-0.0%
Property (State School Levy)-net after transfer	612,631	612,631	(0)	-0.0%
Property tax collections	612,631	612,631	(0)	-0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	13,047	13,047	(0)	-0.0%
Real Estate Excise	76,485	76,485	0	0.0%
Timber (state share)	2,233	2,233	0	NA
Other	49,121	49,121	(0)	-0.0%
Department of Licensing (4)	1,236	1,202	(34)	-2.8%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,066,804	\$2,066,770	(\$34)	-0.0%

Preliminary. Reported in the January 10, 2003 collection report.

1 Collections Dec. 11 - Jan. 10, 2003. Collections primarily reflect November 2002 business activity of monthly taxpayers.

2 December 1-31, 2002 collections.

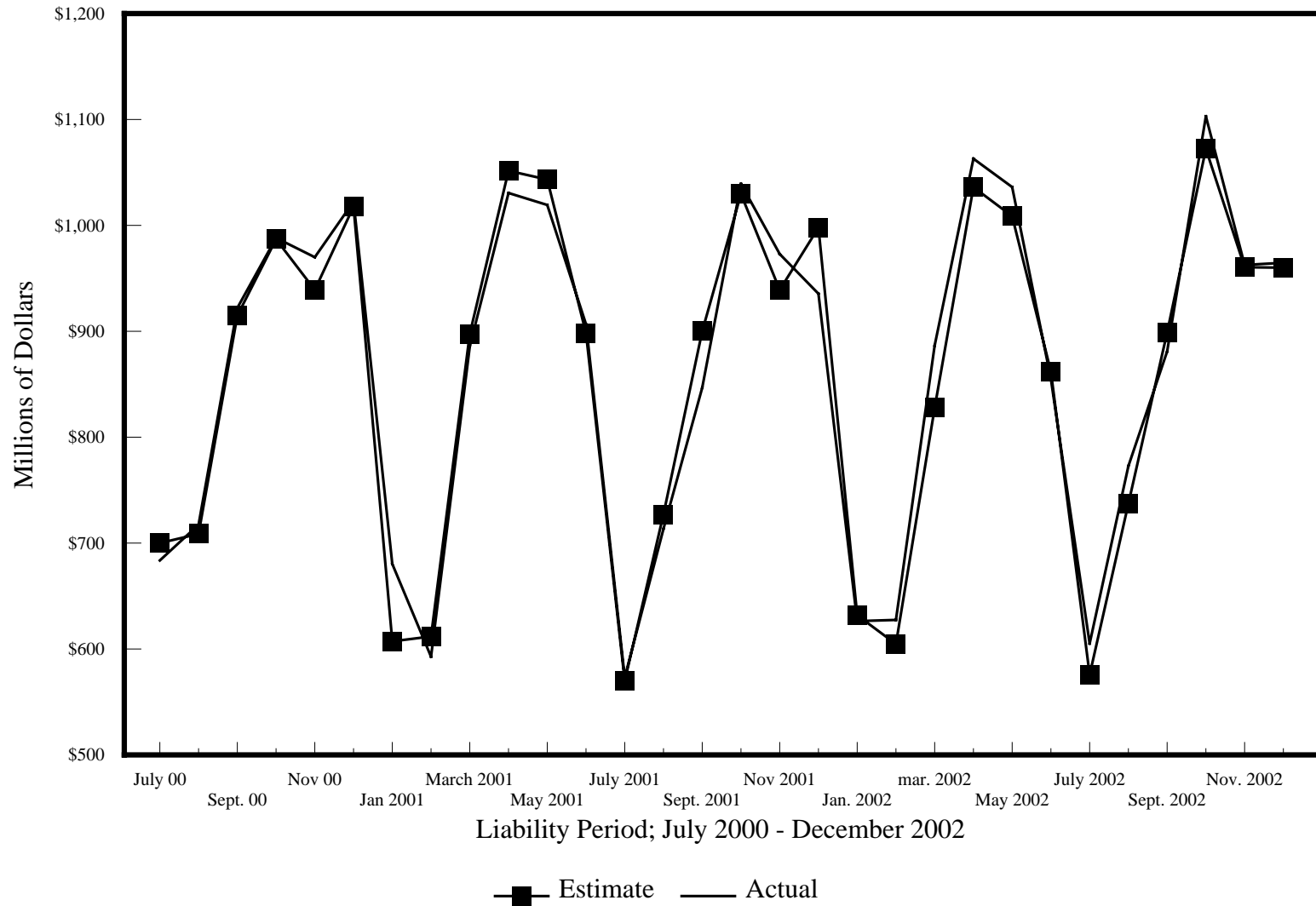
3 Cumulative variance for since the November 2002 forecast: November 11-Jan. 10,2003 & revisions to history.

4 Cumulative variance: since the November 2002 forecast ( November & December 2002 ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

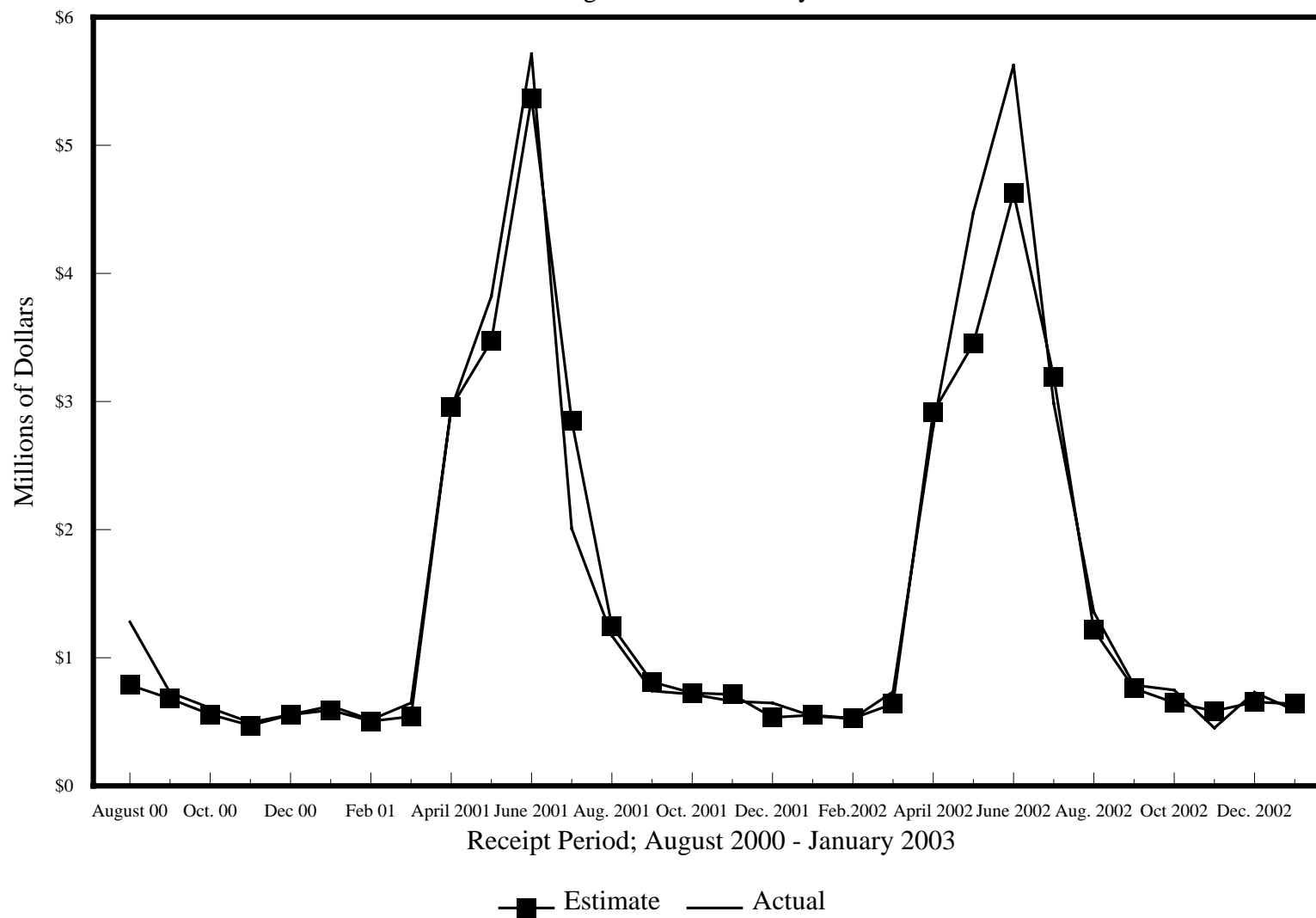
# Department of Revenue: General Fund-State, Actual vs. Estimate

July 2000 to December 2002



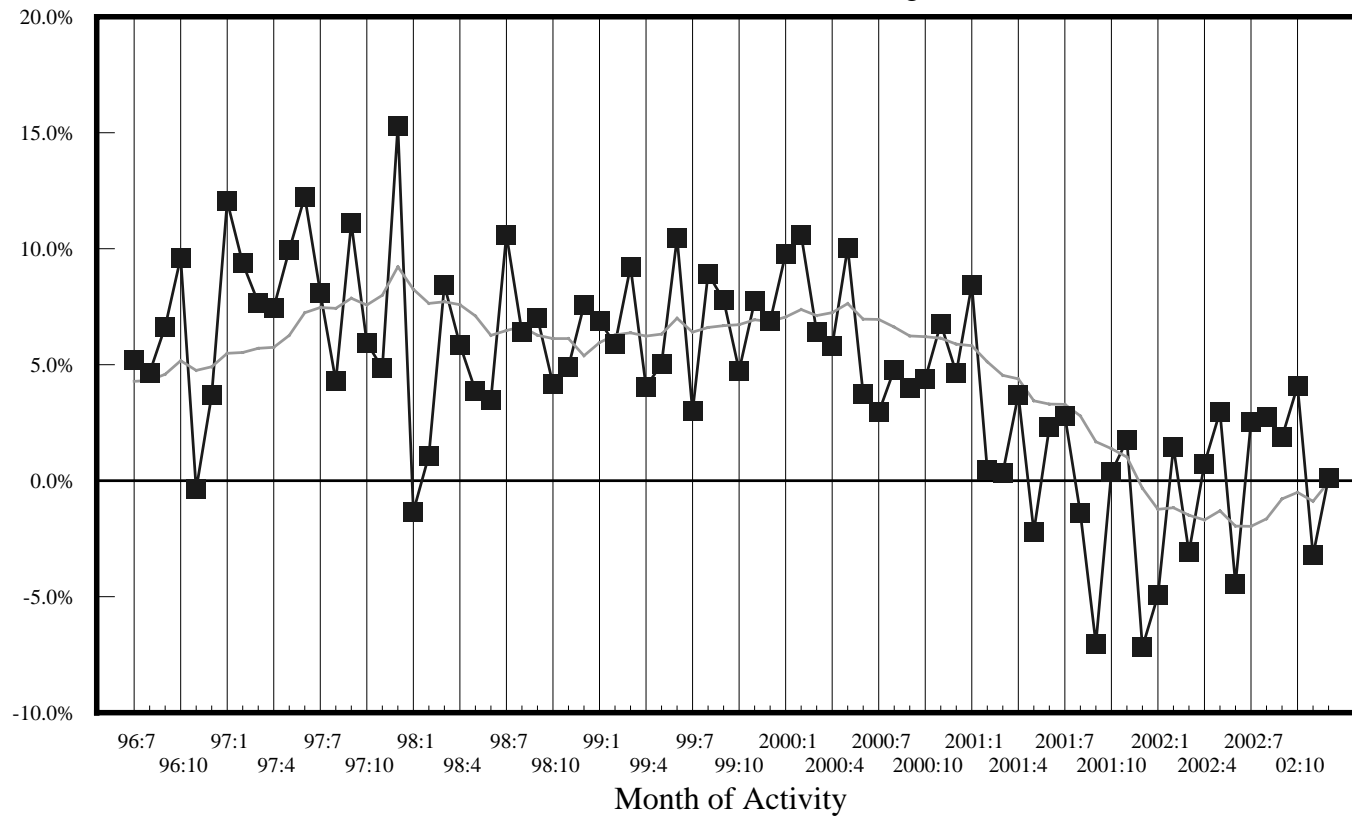
# Department of Licensing General Fund-State, Actual vs. Estimate

August 2000 to January 2003



# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

\*Adjusted for special factors